COMMISSION NEWS

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FOR: IMMEDIATE RELEASE CONTACT: Heather Murphy (602) 542-0844

INVESTOR ALERT: HEDGE FUNDS

PHOENIX – The old adage is true: you don't get something for nothing.

So it is with hedge funds – the promise of higher returns comes with a higher risk of loss.

Hedge funds comprise what has been a loosely regulated $1.1 trillion industry. Traditionally, hedge funds pool investors' money and engage in a variety of speculative investment strategies.

Prior to February 1, 2006, hedge funds were subject to very few regulatory controls. As a result, hedge fund managers were not required to disclose much information about their operations. This gap in available data makes it difficult for an investor to evaluate the risks of investment in hedge funds, as a group or individually.

Lack of information also shields fraud. The number of actions brought against hedge funds has increased dramatically in recent years. These cases involve Ponzi schemes, misappropriation of assets, market manipulation, and false or misleading statements about a fund's manager, valuation or track record.

Generally, hedge funds have been available to wealthy investors who can afford the hefty minimum investment. A recent trend is to approach average investors to participate in a "fund of hedge funds" which, while having a lower investment minimum, still engages in high risk investment practices.

Before investing in either type of vehicle:

- Read a fund's prospectus or offering memorandum and related materials. Make sure you understand the level of risk involved in the fund's investment strategies and that it is suitable to your personal investing goals, time horizons and risk tolerance.
- Understand how a fund's assets are valued. These funds may invest in highly illiquid securities that may be difficult to value.
- Ask questions about fees. Fees impact your return on investment. Hedge funds typically charge an asset management fee of 1-2% of assets, plus a "performance fee" of 20% of a hedge fund's profits. If you invest in a fund of hedge funds, you may pay two layers of fees: the fees of the fund of hedge funds and the fees charged by the underlying hedge funds.
- Understand any limitations on your right to redeem your shares. Hedge funds typically limit opportunities to redeem, or cash in, your shares.
- Research the backgrounds of hedge fund managers. Make sure hedge fund managers are qualified to manage your money, and find out whether they have a disciplinary history within the securities industry.
- Don't be afraid to ask questions. You are entrusting your money to someone else. You should know where your money is going, who is managing it, how it is being invested, how you can get it back, what protections are placed on your investment and what your rights are as an investor.

For further information on hedge funds and funds of hedge funds, please visit our website at: www.ccsd.cc.state.az.us. To read more about investing wisely and avoiding fraud, please check out the following websites: www.azinvestor.gov; www.sec.gov/investor.shtml; www.nasaa.org; and www.nasd.org.

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Comments from Commissioners

Chairman Jeff Hatch-Miller:

"The popularity and hype surrounding hedge funds – particularly those that have performed well – prompted a lot of investors to consider adding these funds to their portfolios. What investors need to know, though, is that spectacular results only come when you accept spectacular risk. Hedge funds are risky. They may be appropriate for some investors, but only those who are willing to accept the corresponding risk of loss."

Commissioner Marc Spitzer:

"A hedge fund index by Standard & Poor's showed that overall, hedge funds posted gains of less than 2.5 percent for 2005, down from 2004's return of 3.6 percent return. I look at those numbers and see a lot of unnecessary risk for the average investor. Add to that the fact that hedge funds are very loosely regulated and I just don't see a huge upside for the typical investor."

Commissioner Bill Mundell:

"In a CNNMoney.com article published just yesterday, the reporter stated a 44 percent increase in the number of new hedge funds launched in 2005. She also reports that 848 hedge funds closed or liquidated assets, up from 248 in 2004.[1] These are startling numbers and should make investors very wary about investing in these funds."

Commissioner Mike Gleason:

"Investors must understand the risks before investing. They especially need to research the fee structure and understand the limitations on when and how often they can redeem their money. Access to cash is often very limited in some of these funds. Hedge fund managers have complete control over the disbursement of money and the tax implications."

Commissioner Kris Mayes:

"In recent months, the risks and potential abuses associated with small, unregistered hedge funds have been highlighted by the spectacular and high profile failure of several of these investment vehicles. Such failures should make it clear to individual investors that they need to be aware of the potential pitfalls and risks of investing their hard earned money in hedge funds before doing so."

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1 "Hedge funds launch, close in record numbers" by Amanda Cantrell.
http://money.cnn.com/2006/03/01/markets/hedgefund_stats/index.htm?section=money_latest